

**INDIANA POLITICAL SUBDIVISION
INSURANCE FUNDS**

FINANCIAL STATEMENTS
December 31, 2005 and 2004

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
Indianapolis, Indiana

FINANCIAL STATEMENTS
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CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
FINANCIAL STATEMENTS	
BALANCE SHEETS.....	2
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS.....	5
SUPPLEMENTARY INFORMATION	
SCHEDULE OF HISTORICAL INFORMATION - BASIC	8
SCHEDULE OF HISTORICAL INFORMATION - CATASTROPHIC	9

REPORT OF INDEPENDENT AUDITORS

Indiana Political Subdivision Risk Management Commission
Indianapolis, Indiana

We have audited the accompanying combined and separate balance sheets of the Indiana Political Subdivision Insurance Funds as of December 31, 2005 and 2004, and the related combined and separate statements of revenue, expenses and changes in fund balance and combined and separate statements of cash flows for the years then ended. These financial statements are the responsibility of the Funds' Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Notes 1 and 2, the reserve for losses and other claims represent the Commission's estimate of known losses on filed claims. Because of the limited number of members and insufficient historical data, management has made no provision for losses incurred but not reported or loss adjustment expenses. In our opinion, the provision for losses incurred but not reported is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission discussed in the preceding paragraph, the combined and separate financial statements referred to above present fairly, in all material respects, the financial position of the Indiana Political Subdivision Insurance Funds as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of historical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.


Crowe Chizek and Company LLC

Indianapolis, Indiana
August 30, 2006

REPORT OF INDEPENDENT AUDITORS

Indiana Political Subdivision Risk Management Commission
Indianapolis, Indiana

We have audited the accompanying combined and separate balance sheets of the Indiana Political Subdivision Insurance Funds as of December 31, 2005 and 2004, and the related combined and separate statements of revenue, expenses and changes in fund balance and combined and separate statements of cash flows for the years then ended. These financial statements are the responsibility of the Funds' Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

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In our opinion, except for the omission discussed in the preceding paragraph, the combined and separate financial statements referred to above present fairly, in all material respects, the financial position of the Indiana Political Subdivision Insurance Funds as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of historical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Crowe Chizek and Company LLC

Indianapolis, Indiana

August 31, 2006

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
BALANCE SHEETS
December 31, 2005 and 2004

	-----2005-----			-----2004-----		
	Risk Management Fund	Catastrophic Liability Fund	Total	Risk Management Fund	Catastrophic Liability Fund	Total
ASSETS						
Cash and short-term investments	\$ 816,191	\$ 8,059,473	\$ 8,875,664	\$ 744,115	\$ 7,833,271	\$ 8,577,386
Premium receivable	-	1,111	1,111	-	74,136	74,136
Prepaid expenses	-	303,344	303,344	-	21,743	21,743
	<u>\$ 816,191</u>	<u>\$ 8,363,928</u>	<u>\$ 9,180,119</u>	<u>\$ 744,115</u>	<u>\$ 7,929,150</u>	<u>\$ 8,673,265</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Reserve for losses and other claims (Note 2)	\$ -	\$ -	\$ -	\$ 14,210	\$ -	\$ 14,210
Unearned premiums	-	66,720	66,720	-	3,756	3,756
Accrued expenses (Note 4)	-	1,004,479	1,004,479	-	6,672	6,672
	-	1,071,199	1,071,199	14,210	10,428	24,638
Fund balance						
Unrestricted	219,316	7,292,729	7,512,045	133,030	7,918,722	8,051,752
Contributed surplus (Note 1)	596,875	-	596,875	596,875	-	596,875
	<u>816,191</u>	<u>7,292,729</u>	<u>8,108,920</u>	<u>729,905</u>	<u>7,918,722</u>	<u>8,648,627</u>
	<u>\$ 816,191</u>	<u>\$ 8,363,928</u>	<u>\$ 9,180,119</u>	<u>\$ 744,115</u>	<u>\$ 7,929,150</u>	<u>\$ 8,673,265</u>

See accompanying notes to financial statements.

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
Years ended December 31, 2005 and 2004

	-----2005-----		-----2004-----	
	Risk Management Fund	Catastrophic Liability Fund	Risk Management Fund	Catastrophic Liability Fund
Revenues	Total		Total	
Premiums earned	\$ 66,400	\$ 661,852	\$ 728,252	\$ 593,873
Investment income	<u>17,790</u>	<u>179,876</u>	<u>197,666</u>	<u>49,026</u>
	84,190	841,728	925,918	642,899
				<u>714,148</u>
Expenses				
Claims provision (Note 2)	(13,502)	-	(13,502)	-
Commissions	5,644	43,423	49,067	35,636
Management fees (Note 3)	5,762	69,238	75,000	68,360
Reinsurance (Note 5)	-	283,149	283,149	-
Member rebate (Note 4)	-	1,000,000	1,000,000	-
Public officials insurance	-	24,495	24,495	23,859
General expenses	<u>-</u>	<u>47,416</u>	<u>47,416</u>	<u>53,398</u>
	(2,096)	467,721	465,625	181,253
			2,200	<u>183,453</u>
Excess of revenues over expenses/ (expenses over revenues)	86,286	(625,993)	(539,707)	461,646
Fund balance at beginning of year	<u>729,905</u>	<u>7,918,722</u>	<u>8,648,627</u>	<u>7,457,076</u>
Fund balance at end of year	<u>\$ 816,191</u>	<u>\$ 7,292,729</u>	<u>\$ 8,108,920</u>	<u>\$ 7,918,722</u>
				<u>\$ 8,648,627</u>

See accompanying notes to financial statements.

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
STATEMENTS OF CASH FLOWS
Years ended December 31, 2005 and 2004

	----- 2 0 0 5 -----			----- 2 0 0 4 -----		
	Risk Management Fund	Catastrophic Liability Fund	Total	Risk Management Fund	Catastrophic Liability Fund	Total
Net cash from operating activities						
Excess of revenues over expenses/ (expenses over revenues)	\$ 86,286	\$ (625,993)	\$ (539,707)	\$ 69,049	\$ 461,646	\$ 530,695
Adjustments to reconcile excess of revenues over expenses/ (expenses over revenues)						
to net cash from operating activities						
Change in assets and liabilities						
Reserve for losses and other claims	(14,210)	-	(14,210)	(10,592)	-	(10,592)
Premium receivable	-	73,025	73,025	-	(74,136)	(74,136)
Prepaid expenses	-	(281,601)	(281,601)	-	(636)	(636)
Unearned premiums	-	62,964	62,964	-	81	81
Accrued expenses	-	997,807	997,807	-	(114,916)	(114,916)
Net change in cash and cash equivalents	72,076	226,202	298,278	58,457	272,039	330,496
Cash and cash equivalents at beginning of year	744,115	7,833,271	8,577,386	685,658	7,561,232	8,246,890
Cash and cash equivalents at end of year	<u>\$ 816,191</u>	<u>\$ 8,059,473</u>	<u>\$ 8,875,664</u>	<u>\$ 744,115</u>	<u>\$ 7,833,271</u>	<u>\$ 8,577,386</u>

See accompanying notes to financial statements.

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity: The financial statements include the accounts of the Political Subdivision Risk Management Fund (the Basic fund or Risk Management fund) and the Political Subdivision Catastrophic Liability Fund (the Catastrophic fund). The funds are administered by the Indiana Political Subdivision Risk Management Commission (the Commission) and operate under authority created by the legislature of the State of Indiana. The funds were established to aid political subdivisions in protecting themselves against liabilities. Members may withdraw from the Funds by providing written notice of their intent ninety days prior to the end of the policy period. At December 31, 2005, there was 1 member in the Basic fund and 26 members in the Catastrophic fund.

Effective July 1, 1998, the legislature granted the Commission the authority to close the Basic fund, and the Basic fund was suspended January 1, 1999. The Commission reactivated the Basic fund on February 12, 2003.

Basis of Accounting: The funds recognize revenue and expense using the accrual method of accounting.

Recognition of Premium Revenues: Annual premiums are recognized as revenue on a pro rata basis over the policy term. The Commission has the authority to retroactively assess members for fund operating deficits. These special assessments are recognized as revenue when assessed.

Short-Term Investments: The Commission deposits all funds with the Treasurer of the State of Indiana for investment in interest-bearing accounts.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. An estimate that is more susceptible to change in the near term is the reserve for losses and other claims.

Reserve for Losses and Other Claims: The reserve for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases. Because of the limited number of members and insufficient past experience, the Commission has been unable to estimate a reserve for losses incurred but not reported or loss adjustment expenses. Specific claim reserves are necessarily based on estimates and, while management believes that the amount is adequate, should the future actual claims exceed management's current estimates, significant losses in the near term could occur. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

(Continued)

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The maximum amounts payable for any liability of the Basic fund is \$300,000 per person and \$1,000,000 per occurrence. Generally, the Catastrophic fund covers liabilities in excess of primary coverage up to \$5,000,000.

Contributed Surplus: Contributed surplus represents annual assessments levied against members of the Basic fund.

Income Taxes: The funds are exempt from taxation under Section 501(C)(6) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been made.

Premium Receivable: The Commission accounts for premiums receivable based on amounts billed to customers. Most billings and past due receivables are determined based on contractual terms. The Commission does not accrue interest on any of its premiums receivable.

Statements of Cash Flows: The Statement of Cash Flows has been prepared using a definition of cash and cash equivalents that includes deposits with an original maturity of three months or less.

NOTE 2 - RESERVE FOR LOSSES AND OTHER CLAIMS

Activity in the reserve for losses and other claims was as follows:

	Basic Fund (Note 1)	Catastrophic Fund	Total
Balance, January 1, 2004	\$ 24,802	\$ -	\$ 24,802
Claims paid	(508)	-	(508)
Provision for insured claims	<u>(10,084)</u>	<u>-</u>	<u>(10,084)</u>
Balance, December 31, 2004	14,210	-	14,210
Claims paid	(708)	-	(708)
Provision for insured claims	<u>(13,502)</u>	<u>-</u>	<u>(13,502)</u>
Balance, December 31, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As indicated in Note 1, the reserve for losses and other claims does not include provisions for losses incurred but not reported or loss adjustment expenses. This amount could be material to the fund balances

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 3 - MANAGEMENT AGREEMENT

The Commission entered into a management agreement with Arthur J. Gallagher Risk Management Services, Inc. (Gallagher) for the period January 1, 2005 through December 31, 2006. Under terms of the agreement, Gallagher receives management fees equal to 10% of all assessments paid to the Commission by its members up to a maximum of \$75,000. Management fees for each of the years ended December 31, 2005 and 2004 were \$75,000.

NOTE 4 - SUBSEQUENT EVENT

Effective July 1, 2006, the legislature passed House Bill 1392 amending IC 27-1-29.1 which stated that if a member has been with the fund for at least ten years and provided withdrawal notice in 2005 for the 2006 calendar year insured period, then the member may withdraw from the fund and elect to receive a one-time rebate of 15% of the member's prior assessments, not to exceed \$1,000,000. The Commission can pay the rebate if the reserve account exceeds \$5,000,000. After the member withdraws from the fund and receives a rebate, the member is released from all liability to the fund related to claims that took place while the member was a member of the fund, and the fund is released from all liability related to claims while the member was a member of the fund. During the year ended December 31, 2005, one member withdrew from the fund effective January 1, 2006 and received a rebate of \$1,000,000.

NOTE 5 - INSURANCE

During the year ended December 31, 2005, the Catastrophic fund purchased excess loss insurance to reduce its exposure to claim settlements and related expenses. The policy provides varying levels of coverage. Where the Commission has issued \$4,000,000 in excess of \$1,000,000 per occurrence coverage, the member will cover the first \$1,000,000, the fund will cover the next \$2,000,000 and the excess loss insurance will cover \$2,000,000. Where the Commission has issued \$3,000,000 in excess of \$2,000,000 per occurrence coverage, the member will cover the first \$2,000,000, the fund will cover the next \$2,000,000 and the excess loss insurance will cover \$1,000,000. The excess insurance permits recovery of a portion of losses although it does not discharge the primary liability of the Catastrophic fund as direct insurer of the risks. The excess insurance applies to certain members based on underwriting criteria.

The Basic fund has not purchased reinsurance to reduce its exposure to claim settlements and related expenses.

SUPPLEMENTARY INFORMATION

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
SCHEDULE OF HISTORICAL INFORMATION - BASIC
Years ended December 31, 1988 through 2005
(Unaudited)

	<u>Premiums</u> <u>Earned</u>	<u>Investment</u> <u>Income</u>	<u>Loss</u> <u>Adjustment</u> <u>Expense - Net</u>	<u>Claims</u> <u>Paid</u>	<u>Total</u>	<u>Cumulative</u>
1988	\$ 355,897	\$ 18,530	\$ (557)	\$ 8,614	\$ 8,057	\$ 8,057
1989	353,016	31,009	17,246	433	17,679	25,736
1990	326,377	75,305	68,482	89,272	157,754	183,490
1991	159,986	77,194	60,539	59,862	120,401	303,891
1992	156,045	38,452	23,636	63,058	86,694	390,585
1993	128,167	26,165	46,737	90,027	136,764	527,349
1994	134,001	31,869	21,385	96,963	118,348	645,697
1995	118,375	37,159	52,093	22,660	74,753	720,450
1996	153,384	40,891	19,417	79,539	98,956	819,406
1997	83,879	50,570	44,188	18,165	62,353	881,759
1998	20,477	27,417	4,326	1,031	5,357	887,116
1999	-	33,110	75,492	-	75,492	962,608
2000	-	24,551	700	-	700	963,308
2001	-	29,252	-	-	-	963,308
2002	-	10,837	-	4,764	4,764	968,072
2003	-	5,757	-	10,781	10,781	978,853
2004	66,400	4,849	-	508	508	979,361
2005	66,400	17,790	-	708	708	980,069

INDIANA POLITICAL SUBDIVISION INSURANCE FUNDS
SCHEDULE OF HISTORICAL INFORMATION - CATASTROPHIC
Years ended December 31, 1988 through 2005
(Unaudited)

	Premiums <u>Earned</u>	Investment <u>Income</u>	Loss Adjustment <u>Expense - Net</u>	Claims <u>Paid</u>	<u>Total</u>	<u>Cumulative</u>
1988	\$ 568,509	\$ 15,785	\$ -	\$ -	\$ -	\$ -
1989	755,740	65,894	-	-	-	-
1990	859,866	84,919	357	-	357	357
1991	700,932	120,739	2,191	-	2,191	2,548
1992	626,592	62,738	-	-	-	2,548
1993	675,399	78,500	-	-	-	2,548
1994	662,181	112,992	-	-	-	2,548
1995	678,385	234,243	-	-	-	2,548
1996	717,908	243,361	4,608	1,311,663	1,316,271	1,318,819
1997	624,505	355,196	-	-	-	1,318,819
1998	514,988	207,894	39,385	-	39,385	1,358,204
1999	555,257	321,199	-	-	-	1,358,204
2000	590,279	235,940	-	-	-	1,358,204
2001	621,058	288,031	-	-	-	1,358,204
2002	573,509	110,751	-	-	-	1,358,204
2003	576,190	61,569	-	-	-	1,358,204
2004	593,873	49,026	-	-	-	1,358,204
2005	661,852	179,876	-	-	-	1,358,204
